A meeting of the Board of Governors of the Federal Reserve System with members of the executive committee of the Federal Advisory Council was held in Washington on Wednesday, January 6, 1943, at 12:15 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Paulger, Chief of the Division of Examinations
Mr. Parry, Chief of the Division of Security Loans
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Berntson, Clerk in the Office of the Secretary

Messrs. Harrison, Kurtz, Huntington, and Fleming, members of the executive committee of the Federal Advisory Council

Mr. Spencer, member of the Federal Advisory Council

Mr. Lichtenstein, Secretary of the Federal Advisory Council

Mr. Harrison stated that Mr. Brown, President of the Federal Advisory Council, was ill and had asked that he (Mr. Harrison) act as

Chairman of this meeting of the executive committee of the Council.

Mr. Harrison then stated that the first subject the members of the executive committee wished to discuss with the Board was the possibility of the latter bringing pressure to bear on the Federal Deposit Insurance Corporation to relieve war loan deposit accounts from the deposit insurance assessment because of the fact that, with the accounts entirely secured by Governments, there was no exposed risk that need be insured.

Chairman Eccles said that this matter had been taken up with the Treasury before the last financing drive. It was realized that it would be necessary to increase the number of war loan deposit accounts in order to avoid the unstabilizing situation that would result from requiring a largely increased volume of payments for new securities to be made at one time to the Federal Reserve Banks rather than through such accounts. Chairman Crowley of the Federal Deposit Insurance Corporation was agreeable to legislation that would eliminate the assessment on war loan deposits if the Board were favorable to legislation that would eliminate the requirement that reserves be maintained against such deposits. After the Board and the Federal Deposit Insurance Corporation had drafted a bill which had the approval of the Treasury, Senator Prentiss Brown and Representative Henry Steagall were consulted during the first part of December, and, while they had no objection to the proposed legislation, they indicated that it would be necessary to obtain the unanimous consent of both the Senate and House of Representatives in order to obtain passage of the bill, which in their opinion could not be obtained. This made it necessary to defer the introduction of the bill until after the first of the year, when the new Congress had convened. The Chairman added that, inasmuch as the matter was not a controversial one, he expected the legislation would be passed before the next major Treasury financing.

Mr. Harrison pointed out that, while there was a feeling on the part of some of the members of the Federal Advisory Council that the removal of the requirement of maintaining reserves against war loan deposits was not sound in principle, since these deposits were volatile and some banks might not know how to protect themselves against withdrawals, the executive committee was in unanimous agreement that the bill should be presented and, if possible, passed before the next Treasury financing.

With respect to the next topic on the agenda, i.e., the application of the Selective Service Act to bank employees, Mr. Harrison stated that, while the executive committee of the Federal Advisory Council felt that the establishment of the maximum age limit of draftees at 38 would be of considerable help so far as military service was concerned, the question was whether bank employees would be subject to transfer to defense industries. He said that the pressure on bank personnel in connection with war activity was already great and would be even greater if they were to take over the handling of ration coupons, and that therefore the executive committee of the Council felt that, if it were necessary to have the banks declared essential in order to prevent loss of the personnel necessary to do that work, the time to take that action was now when the banks were reputed to have done a good job in the recent financing and were being called on for additional work in connection with ration banking.

Chairman Eccles stated that this subject had been placed on the agenda for discussion with the Reserve Bank Presidents who were to meet in Washington the week of January 25, but that, until banks were willing to extend their hours beyond 40 a week so as to provide better service to customers and to get along with as few employees as possible, he felt that there was little likelihood of banking being declared essential to the war effort. He expressed the opinion that it would be necessary to work longer hours, and that the way to meet the existing competitive situation, which would be emphasized by the recent adjustment in salaries of Government employees, would be for bank employees to work 48 hours per week with overtime pay after 40 hours.

Mr. Fleming said that longer hours would not help if the Manpower Commission were at liberty to take a bank's key employees for essential war industry, and Chairman Eccles replied that there would not be much chance of relief in that respect until the banks worked longer hours.

Mr. Harrison stated that the insurance companies, without waiting for a determination whether they were to be regarded as essential or not, were making a survey to ascertain which of their employees were skilled from the standpoint of assisting in the war effort and which were not, so as to justify the retention of the latter in the work of the companies.

Chairman Eccles suggested that the Manpower Commission might be asked to declare certain classes of a bank's employees essential, such as officers and department heads who had been with the bank for a minimum number of years, it being understood that women would be used as tellers and in other capacities as much as possible.

At this point, Mr. Fleming repeated a statement made by him at earlier meetings that if the banks continued to lose employees they could not continue to service the increased volume of deposits created by war expenditures or render the services required in connection with ration banking.

Mr. Szymczak pointed out that at the last meeting of the Board with the Council it had been stated that a copy of the memorandum prepared by the special committee of the American Bankers Association on this subject would be sent to the Board but that it had not been received, and that it would be helpful to have the memorandum in connection with the discussion at the forthcoming meeting with the Presidents of the Federal Reserve Banks. Mr. Fleming said that he would see that a copy of the memorandum was sent to the Board. He also said that the Office of Price Administration had been helpful by writing strong letters suggesting that banks be classified as essential to the war effort.

Mr. Harrison said it was his understanding that, if banks were classified as nonessential and certain of their employees transferred to essential war industries, they would be required under the provisions of the War Manpower Act to contact the United States Employment Service for new employees, that that Service would not refer applicants to nonessential industries, and that if this were the case the banks would be in a most difficult position.

At this point, Mr. Smead, Chief of the Division of Bank Operations, joined the meeting.

Chairman Eccles expressed the opinion that the short hours banks remained open for business were the cause of considerable currency hoarding because of the great inconvenience experienced by the public in depositing and withdrawing funds, and that as one means of relieving bank congestion the banks might announce that they were establishing longer hours and ask that certain classes of customers use the banks' facilities during designated hours so as to avoid the rush hours. He said that one cause of congestion was the lack of sufficient space in existing banking quarters with no possibility for expansion, and that another means of relieving that congestion would be to permit the banks to open paying and receiving windows in rented quarters. He pointed out, however, that under present laws this was not possible in some States without such windows being considered branches.

Mr. Harrison stated that the executive committee felt it would be helpful to determine to what extent banking was essential in connection with war financing and ration banking, if for no other reasons, and that, if it were essential in those two respects, we should be interested in seeing that the banks were not deprived of the necessary personnel to carry on those activities.

In a further discussion, in response to an inquiry from Mr. Harrison, it was pointed out that the Board of Governors and the Federal Reserve Banks had not taken any action looking toward preventing the transfer of their employees to essential war industries.

Mr. Harrison then stated that the executive committee of the Council was of the opinion that the results of the recent major financing campaign had justified the method used, including the transfer of the Series F and G bonds to the Victory Fund Committees. It was the feeling of the executive committee that periodic drives were desirable, and that it might be better to limit them to nonbank subscribers and appeal to the banks in the periods between the public drives so as to more evenly distribute the flow of revenue into the Treasury. This would place less pressure on the Committees handling the drives and give the Treasury more of an opportunity to offer securities best suited to particular groups of subscribers. The committee also felt, Mr. Harrison said, that, while quotas could not be fixed for the public, they could be established, informally if desired, for the banks and that much could be said for Federal Reserve district quotas and area quotas within a district. He expressed the further opinion of the executive committee that there might be some advantage in reviving the partial-payment plan of the last war for the purchase of Government securities, especially for nonbank subscribers. He stated that insurance companies were probably the largest nonbank subscribers, that with a partial-payment plan the companies could enter large subscriptions in anticipation of income and pay for the securities as income was received, that such a plan was particularly important to some insurance companies which would have difficulty in existing in any event on a 2-1/2 per cent interest rate and would be in still greater difficulty if they were forced to wait three or four months to invest their funds in a 2-1/2 per cent security, and that if some means could be devised, through either a partial-payment plan or a continuous tap issue, so that these companies could invest their funds currently it would relieve the pressure on them to some extent.

Chairman Eccles said that the Board would favor a partial-payment plan, and that Under Secretary of the Treasury Bell had indicated that he would favor such an arrangement. Mr. McKee pointed out that the Treasury now had authority under the law to sell securities on an instalment basis.

Mr. Harrison stated that with increased taxes the redemption of Series E bonds would increase substantially, that the executive committee had considered the possibility of deferring the redemption privilege for three years as a means of protecting the Treasury, and that, while such a change might make them unattractive to the public, this could possibly be overcome if they were made negotiable, at least to a limited extent.

With respect to the last item on the agenda, credit policy, Mr. Harrison indicated that the executive committee felt that of the three possible ways of supplying reserves, i.e., reducing reserve requirements, open market operations, and bank borrowing, no one way should be used to the exclusion of the others, and that a judicious use should be made of all three methods. He referred to the discussion at the last meeting of the Council with the Board with respect to the deduction of Treasury bills from deposits for the purpose of computing required reserves and stated that the Council felt that, inasmuch as bills were now almost equivalent to cash, it would be helpful if some method could be found to use bills either as reserves or as a deduction from deposits against which reserves must be carried, and that this would be particularly true if the amount of bills issued each week were increased.

Chairman Eccles said that he felt very strongly that in future financing operations bank offerings should be separated from nonbank offerings, that if this were done the question of excess reserves would not be so important when a drive was being made outside of the banks, and that, while the market would have to be supported at all times to the extent necessary to maintain the agreed pattern of rates, the System would not be in the inconsistent position, as it was during the last drive, of having not only to maintain the pattern of rates but also to keep up excess reserves, which resulted in the System purchasing a substantial amount of high-premium bonds. When securities were offered for bank subscription, he said, the System could see to it that there were sufficient reserves in the money market to enable the banks to purchase the amount of securities allotted to them.

Following a discussion of how reserves might be put in the market in such a program, Mr. McKee suggested that consideration be given to the desirability of separating war loan deposits from other deposits in statements of condition so that, if at the time of a call the war loan deposits had dropped to low figures, the drop would not be reflected as a decline in total deposits of a bank, which might be subject to some misunderstanding by the public. Members of the executive committee of the Council indicated agreement that this should be done.

Mr. Harrison asked if the question of deducting bill holdings from deposits for reserve purposes was being actively considered at the present time, and Chairman Eccles replied in the negative.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.